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SUBJECT: The Japan Economic Scope - February 16, 2007

Sensitive but unclassified. Please protect accordingly.

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[1](#)3. Ambassador Schieffer on U.S.-Japan Economic Relations at the ACCJ

The Ambassador made a speech on February 14 to the American Chamber of Commerce in Japan regarding the development of East Asia and the future of the U.S.-Japan economic relationship. The full text of the speech is attached.

[1](#)4. (U) Fourth Quarter Real GDP Grew 4.8 Percent; Up 2.2 Percent in CY2006

Japan's real GDP grew at a 4.8 percent annual rate in the 2006 fourth quarter, the strongest growth in almost three years, according to preliminary data announced by the Cabinet Office February 16. GDP growth was considerably higher than the 3.8 percent consensus forecast of private analysts. Overall real GDP growth reflected strong growth in domestic demand, notably a rebound in personal consumption and firm business investment, and also strong exports. With the surge in demand, business inventories were down by a half a percentage point.

The overall GDP deflator, the broadest measure of overall prices, improved from a 0.7 percent year-on-year decline in the third quarter to a 0.5 percent drop in the fourth quarter, the smallest drop since the last quarter of 2004.

Some private analysts interpreted the results as a tailwind nudging the BOJ to raise interest rates at the upcoming Policy Board meeting on February 20-21.

Please see attached analysis for more details.

15. (U) Minister of State for Economic and Fiscal Policy Hiroko Ota on GDP News

At a February 15 press conference after the release of the GDP figures, Minister Ota said, "Data confirm that the Japanese economy continues to recover. But it also shows that consumption is still weak," according to Nikkei. She noted, "Price-related figures are slowly, but steadily improving. I think the deflation exit is definitely in sight."

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Regarding the Bank of Japan's position, she said, "I want the bank to support the economy through its monetary policy." She added, "We, the government, will aggressively implement reforms in order to bolster economic growth," and "I think the BOJ will support the economy from the monetary side."

The BOJ will hold a policy meeting next week.

16. (SBU) Japan Post Privatization: Level Playing Field Concerns

Administration and Congressional concern in Washington about the course of Japan's postal privatization process -- in particular, that the private financial institutions emerging out of the process will enjoy unfair advantages against existing companies -- is getting attention in Tokyo.

According to Nikkei on February 15, Nobuyuki Kinoshita, Director-general of the Office for the Promotion of the Privatisation of Postal Services, said U.S. worries were based on a "misunderstanding." He was responding to statements made in the House Ways and Means Committee earlier this week and also to remarks by U.S. Trade Representative Susan Schwab, who said the Administration was closely monitoring the process.

At a February 16 breakfast meeting with the State Department's Japan Affairs Director, James Zumwalt, ACCJ members in Tokyo connected to the industry expressed appreciation for Ambassador Schwab and the U.S. government's continued commitment to a level playing field as Japanese regulators proceed on privatization. They lamented that the draft "Findings" of the Postal Services Privatization Commission on introduction of new products focused on consumer convenience rather than a level playing field, and said they would make this point to the Commission when they testified on February 20.

According to Nikkei, privatization of Japan Post's financial services entities will transfer management of more than \$3 trillion of assets into the private sector. Japan Post operates the world's largest bank and insurance company.

17. (SBU) Japan to be Third Party in U.S. WTO Subsidy Case
Against China

Japanese Trade Minister Amari announced February 16 that the GOJ would participate as a third party in the U.S. WTO subsidy case against China. The Japanese Embassy in Washington will brief USTR on the decision on February 16. According to a METI contact, the Nikkei story February 15 reporting Japan's decision came earlier than the ministry would have liked, but the information was basically accurate.

According to the contact, the GOJ sought further information from the Chinese on the case but did not receive it. An interagency decision was subsequently taken to move ahead as a third party. METI was surprised at how fast the United States had decided to lodge a case against China and would monitor closely Beijing and Washington's consultations.

According to earlier press reports, because many Japanese companies run joint ventures with Chinese partners, Amari had hinted that Japan would take a "softer" third party approach. Our METI contact indicated this was a concern for the Ministry, but ultimately concerns about China's WTO compliance on subsidies loomed larger. How much larger we may know after USTR is briefed on the GOJ's decision.

18. (U) Tyson Beef Shipment Held

A shipment of U.S. beef is being held by Japanese customs authorities because it contained two cartons that were not certified for export to Japan.

MAFF and MHLW issued a press release on February 15 and the story was carried on national television.

When asked if imported U.S. beef should be stopped, Prime Minister Abe told reporters, "I've been informed that this case

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is different from the past when we imposed an import ban, since no specified risk materials (SRM) were discovered." The Prime Minister added that he would deal with the case "based on the facts." He had instructed authorities to take measures against the establishment which shipped the beef in question. Earlier in the week, Japanese officials made resolution of this incident an additional precondition for discussing age restrictions on U.S. beef.

USDA is conducting an investigation to determine the cause of the mis-shipment and plans to share a report with the Government of Japan the week of February 19.

19. (SBU) Japan Agriculture Feeling the Heat

Japan Agriculture (JA), the country's leading agricultural lobbying group and cooperative, is feeling some heat for its monopoly practices.

The Japan Fair Trade Commission, responding to a Cabinet decision made in March 2006, came out February 14 with a list of JA's monopoly practices and announced a 30-day public comment period ending March 16.

A JA source told us February 15 that the organization was expecting the news and was working on remedying some of the concerns raised. In addition it will file its own public comments in advance of the deadline.

The monopoly practices JA is accused of are fairly wide ranging and include, for example, forcing farmers to use JA distribution services and materials in order to qualify for JA credits. The Council for the Promotion of Regulatory Reform (CPRR) in its annual report at the end of 2006 noted that JA's monopoly

practices could hinder future measures to revitalize the farming sector.

¶10. (U) ACCJ Washington DC "Door Knock" Set for April 17-18

At a breakfast meeting in Tokyo February 16 attended by the State Department's Office of Japan Affairs Director, Jim Zumwalt, American Chamber of Commerce in Japan members said they plan a series of meetings in April on Capitol Hill and with key economic agencies, focusing on the importance of economic integration and the other issues identified in the ACCJ's White Paper released at the end of last year.

The ACCJ decided to push up the calendar for its annual visit so as not to conflict with the Summit meeting between Prime Minister Abe and President Bush scheduled for early May.

For questions regarding this year's door knock, please contact Clemence Mayali at the ACCJ (cmayali@accj.or.jp).

¶11. (SBU) Nagoya Looks to Attract U.S. Companies

A February 14 forum held by I-BAC (the Aichi-Nagoya International Business Access Center) stressed the city and prefecture's commitment to welcoming foreign firms.

Among the participants Consulate staff spoke to were U.S. representatives of a Michigan-based forged metal components company and a Rhode Island-based company specializing in automotive electrical equipment. Both companies anticipate opening Nagoya representative offices to increase sales to Japanese automakers as "designed-in" parts, primarily in North America.

Despite the fact that neither has plans for production in Japan, both companies made clear they have received strong and substantial support from JETRO and local authorities for establishing offices in Nagoya. In past years, such support would have been much less likely, since almost by definition, any success by these U.S. firms in expanding their market share will come at the expense of potential sales by competitors from Central Japan.

In this case at least, it appears regional authorities are living

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up to their word in promoting the further internationalization of the local economy, a conclusion supported by many other similar conversations we have had with U.S. firms over the past year.

¶12. (U) Telecoms: MRA Signing Set for February 16
The United States and Japan will sign a Mutual Recognition Agreement (MRA) on Telecommunications Equipment in Washington on February 16 capping years of negotiations.

It will be the first mutual recognition agreement between the United States and Japan in any sector.

The agreement will allow U.S. and Japanese regulators to accept the results of testing labs and certifications on telecommunications equipment obtained in either country leading to easier market access for manufacturers wishing to sell in either Japan or the United States.

MOFA plans to submit the agreement to the Diet in March so that the agreement will come into force later this year.

In 2005 the United States exported about \$1 billion in telecommunications equipment to Japan and Japan exported about \$1.6 billion in telecommunications equipment to the United States. One of the benefits of the agreement will come through speeding up the process of bringing telecoms products to market by opening up competition among certification labs.

U.S. telecoms equipment makers, including Motorola and Cisco as

well as many smaller firms are expected to benefit.

¶13. (SBU) EXBS: Unmanned Helicopters Sold to PRC?

Press reports state that Yamaha Motor Co. may have sold seven or eight unmanned helicopters to China, violating METI export control laws.

Yamaha allegedly understated the helicopters' performance capabilities thereby skirting the Foreign Exchange and Foreign Trade Law of 2005.

Sales of the aircraft are strictly controlled due to their potential to be used for military purposes and the dispersal of chemical weapons. Shizuoka and Fukuoka police raided Yamaha offices and questioned ten officials in January 2006.

We are following-up with METI contacts to determine the status of this case.

¶14. (U) Civair: If Matsuzaka Draws a Crowd, Flights to Boston?

The Boston Globe ran a lengthy piece on February 11 about how the Red Sox are "reinventing" themselves to welcome Daisuke Matsuzaka to the team. Aside from lifting the Red Sox's fortunes, Bostonians hope Matsuzaka will draw more Japanese visitors to the home of the bean and cod.

Pat Moscaritolo, head of the Greater Boston Convention and Visitors Bureau told the Globe that there were about 12,000 visitors from Japan last year, and they are expecting at least 20,000 this year. Moscaritolo estimates this could mean an additional \$14 million flowing into the local economy. A tour operator affiliated with All Nippon Airways sold out 350 packages that included Sox tickets in three days, he said. The package cost \$3,000.

However, Peter Grilli, president of the Japan Society of Boston, noted the lack of nonstop flights from Japan to Boston places the city at a competitive disadvantage to Seattle and New York, respective homes of Japanese stars Ichiro Suzuki and Hideki Matsui.

¶15. (U) Basic Industries: Japan Firms Will Continue to Dominate Carbon Fiber Market

Three Japanese companies -- Toray, Teijin Ltd., Toho Tenax Co.,

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and Mitsubishi Rayon Co. -- together have 70 percent of the global carbon fiber market, according to a February 9 Nikkei story.

Nikkei reports the three firms are expected to continue to dominate the market as it expands because of their advanced production technology. Sales of the material, moreover, are adding substantially to the companies' bottom lines. Toray is the number one carbon fiber producer worldwide with 34 percent market share in 2006 and is aiming to expand its market share to 40 percent by 2010.

Toray announced on February 9 that it will spend 55 billion yen to increase its production capacity by 4,000 tons or some 30 percent by December 2008.

In addition to Japan, Toray will develop production in the United States at its plants in Decatur, Alabama and Tacoma, Washington -- and France. (See Toray's press release for details on planned production increases and locations.)

About half of the planned increase is for production of Boeing's 787 jet for which Toray is the exclusive supplier, according to

Nikkei.

Toray foresees carbon fiber demand expanding by 15 percent per year. In addition to aviation, increased use for auto parts and gas tanks as well as other non-aviation products is expected. Toho Tenax also plans to open a large production facility in April 2008 in Japan, says Nikkei.

¶16. (U) Maritime: New Maritime Subcommittee Discussions on Future of Ocean Transport

The Ministry of Land, Infrastructure and Transport (MLIT) announced on its website that the 12th meeting of Maritime Subcommittee will be held on February 16 at the Mita Meeting Hall in Tokyo. MLIT Minister Tetsuzo Fuyushiba is scheduled to give the opening remarks.

A Maritime Bureau official confirmed that this is a new round of discussions, a main theme of which is the future of Japan's ocean transport industry, including the tax and competition policy governing this sector.

We plan further coverage after meetings with MLIT officials covering these and related issues.

¶17. (SBU) Agriculture: Hokkaido Biotech Forum Shows Local Anxiety Still High

On January 15, a Consulate staff member joined forty others in attending a region-wide forum on biotechnology in Sapporo. The forum was the last of eight "regional communication meetings" hosted by the Society for Techno-innovation of Agriculture, Forestry and Fisheries with sponsorship from the Ministry of Agriculture, Forestry and Fisheries. Fourteen residents from across Hokkaido representing a wide range of age groups participated in a panel discussion on biotechnology and genetically modified organisms (GMO).

The majority of panelists expressed serious anxiety about GMOs, mainly focusing their discussion on food safety concerns. Panelists, however, expressed dissatisfaction with the GOJ for the way it disseminates information on biotech products. Several participants asked the GOJ to clarify why it approves of GMO products and encourages further advancement in biotech research but still does not strongly recommend use of GMO products.

At the conclusion of the forum, many participants left disappointed, stating that the meeting had failed to alleviate suspicions and anxiety regarding GMOs.

¶18. (U) Embassy Fights Unfair Meat Labeling Rules

On February 9, Embassy Tokyo submitted comments to a draft MAFF proposal on Wagyu beef. [Please click here for the comments.](#)

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¶19. (U) Regions: The Next Business Leader of Kansai Economic Federation is From Tokyo

The Kansai Economic Federation (Kankeiren) informally announced its next Chairman, Hiroshi Shimozuma, the Chairman of Sumitomo Metal Industry, starting in May. It is the third time for Sumitomo Metal to serve as the head of the Kansai region's prime business lobby group.

Kankeiren has been struggling to name a new leader to succeed current Chairman Yoshihisa Akiyama, Chairman of Kansai Electric Power Co., Inc., who has been in charge for eight years. After the top candidate, Daikin Industry Chairman Noriyuki Inoue, refused, citing Daikin's renewed attempt at entering the U.S. market in 2007, Mr. Shimozuma, already a Kankeiren vice chairman,

decided to take over.

Mr. Shimosuma is well-known for revamping Sumitomo Metal after a period of decline. Although Sumitomo Metal is one of the leading businesses originally from Osaka, the company has shifted its headquarters to Tokyo, and Mr. Shimosuma lives there. This has led some businesspeople to complain that Shimosuma is ill-suited to represent the needs of the Osaka business community.

120. (SBU) New Large Scale Retail Stores Applications in Kansai Decline

The number of applications for new large scale retail store openings in the Kansai declined 15 percent (76 cases) last year, due in part to the revised town planning laws. Among the six prefectures in the region, the number of applications in Wakayama and Nara decreased by 60-70 percent from the previous year, while Osaka held steady and Kyoto increased modestly.

The gap between large store openings in rural and urban areas is growing. A Kyoto city official in the commercial promotion section predicted that the trend of more urban and less rural large stores will continue. In November 2007, nationwide regulations will come into force restricting new starts of stores larger than 10,000 square meters in suburban neighborhoods.

SCHIEFFER